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on behalf of the

Mortgage Bankers Association of America

before the

House Financial Services Committee

Subcommittee on Housing and Community Opportunity

hearing on

"HOUSING AFFORDABILITY FOR AMERICA ACT OF 2002"

April 10, 2002

The Mortgage Bankers Association of America* is grateful for the opportunity to present its views on the "Housing Affordability for America Act of 2002" (H.R. 3995). We applaud the Chair and Vice-Chair of the Subcommittee on Housing and Community Opportunity for sponsoring this legislation. MBA believes that this bill will play an important role in efforts to increase Americans' access to affordable housing, both for those families buying their first home and those who are living in rental housing. MBA has endorsed H.R. 3995, and we look forward to working with you and other members of the Subcommittee as the bill moves through the House.

***MBA is the national association representing the real estate finance industry. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand home ownership prospects through increased affordability; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters excellence and technical know-how among real estate finance professionals through a wide range of educational programs and technical publications. Its membership of approximately 2,800 companies includes all elements of real estate finance; mortgage companies, mortgage brokers, commercial banks, thrifts, life insurance companies and others in the mortgage-lending field. For additional information visit MBA's web site: www.mbaa.org.**

The Need for a New Rental Housing Production Program

Last year, the Subcommittee on Housing and Community Opportunity held a series of hearings on housing affordability and availability in America. The conclusion of those hearings was crystal clear: *a significant shortage of affordable housing, especially rental housing, exists in virtually every jurisdiction in America.*

Three recent reports published by the National Housing Conference's Center for Housing Policy[1] found that in 1997 and 1999, one out of every seven American households (13 million) had a critical housing need. More than 3.9 million of these households included one or more family members who had a full-time job.

Rather than diminishing over the last several years, this crisis in affordable housing is deepening. According to the studies cited above, in 1997 more than 3.7 million low- to moderate-income working families had critical housing needs. Working families with critical housing needs increased to 3.9 million in 1999—a 28 percent increase.

For those families in the median income groups, the number of families earning 50 to 80 percent of median income with critical housing needs increased by 31 percent. For families earning 80 to 120 percent of median income, those with critical housing needs rose a dramatic 77 percent. The NHC/CHP studies also note that vital municipal workers like teachers and police officers are increasingly unable to find affordable housing in the communities they serve.

The most recent NHC/CHP study, entitled *Housing America's Working Families: A Further Exploration*[2], states that this crisis is not a regional problem or an urban problem. The study points out that 40 percent of the families facing critical housing needs reside in urban areas, 40 percent live in suburban areas, and 20 percent live in non-metropolitan or rural areas.

The causes of the crisis differ in different regions of the country. In lower price areas, the problem is generally one of income. The housing exists; the rents are simply too high for lower-income families to afford. In these areas, income support programs, such as Vouchers are the most cost-effective means to assist

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[1] *Housing America's Working Families,* by Michael A. Stegman, Roberto G. Quercia & George McCarthy (Center for Housing Policy; June 2000); *Paycheck to Paycheck: Working Families and the Cost of Housing in America* , by Barbara J. Lippman, Sandra J. Newman & Joseph M. Harkness (Center for Housing Policy; June 2001); *Housing America's Working Families: A Further Exploration*, by Joseph M. Harkness, Sandra J. Newman & Barbara J. Lippman; (Center for Housing Policy; March 2002).

[2] *Housing America's Working Families: A Further Explanation*

families. In other areas, such as New Jersey and Massachusetts, the lack of rental housing has driven up rents to the point where even moderate income families cannot afford to live in the communities where they work. The fact that there has been little new production has made cities like Newark and Boston virtually unaffordable for many families – even for some with two full-time wage earners.

The need for a new rental housing production program to address these shortages is indisputable, and it is essential that Congress devote more federal resources toward new production of affordable rental housing.

Rental Housing Production and Preservation Provisions in H.R. 3995

Last May, the Mortgage Bankers Association testified before this Subcommittee during its oversight hearings on the crisis in affordable housing. At that time, MBA addressed a number of factors that we feel contribute to this crisis, and offered some potential solutions. We are extremely gratified that the members of the Subcommittee took our recommendations, and those of other witnesses, and crafted legislation that truly reflects the opinions of industry, community activists, government officials and other housing experts.

The production program outlined in H.R. 3995 utilizes the highly successful Home Investment Partnership Program (HOME) for production and preservation. We believe that the HOME program provides a very good distribution system and has been successful in providing the gap financing necessary to lower rents in housing produced through other programs. We applaud the bill's provision dividing the allocation of HOME funds 60 percent to localities and 40 percent to states. We also endorse a number of other concepts outlined in the new rental housing production program portion of the bill, including using state median income (SMI) rather than area median income (AMI), if the SMI is higher.

While we endorse many of the concepts behind H.R. 3995's new rental housing production program, however, we do have some concerns about targeting the production program to very-low and extremely-low income constituencies. The need for assistance for families making between 60 percent and 100 percent of median income is very real, and in some areas of the country is hindering economic development.

There are no federal programs to help renters in these income brackets, people who are often the teachers, firefighters and police officers who serve our communities well. To limit new rental housing production so that only very low- and extremely low-income families are assisted is unfair to the many hard-working families who are above these limitations and yet unable to afford decent rental housing in the communities where they work.

As currently drafted, the provisions of H.R. 3995 would be useful in assisting developers to lower the rents on housing that is being constructed or rehabilitated. Used in conjunction with Low Income Housing Tax Credits as a grant or loan to cover part of the construction costs, more very low- and extremely low-income families could be housed at affordable rents. We do not believe, however, that this program would produce additional housing on its own. It would simply be a mechanism for lowering rents on some units that would be produced without the HOME program. This is a laudable goal and will assist an important segment of the population. However, MBA does not believe that this program would, on its own, generate new construction or substantial rehabilitation of affordable rental housing. Therefore, it would not address many of the needs in the least affordable areas of the country where significant new rental housing production is needed.

In order to effectively address the types of shortages that exist in various geographic areas, a mixed income production program is essential. As currently drafted, MBA believes that the provisions of H.R. 3995 would not produce mixed income developments. The Low Income Housing Tax Credit program currently produces few rental developments that house families having in excess of 60 percent of median income. It appears that this program is structured to deliver the same results. It is our opinion that families would be better served, and federal housing dollars would be better spent, in properties with tenants whose incomes range from less than 30 percent of median to 100 percent of median income.

MBA Recommendations for a New Rental Housing Production Program

The federal government has tried a number of different approaches to provide affordable housing over the last fifty years. The most successful of these rely heavily on a public/private partnership that encourages the private sector to produce housing with support provided by the federal government. In particular, the FHA mortgage insurance programs have been extremely successful in producing new and rehabilitated housing at little or no cost to the federal government. Partnering FHA mortgage insurance with an interest rate subsidy will, in most markets, encourage private production of rental housing at rents that would be within the reach of families at 60 percent to 100 percent of median income, a group that is not currently being served by federal housing programs. Such a program could be used in conjunction with the tax credit program or vouchers, where appropriate, to meet the needs of lower income families in a percentage of the units.

Ideally, any new production program would reduce the cost of financing by providing an interest rate subsidy that would bring the market interest rate down to a fixed interest rate that is significantly below market (i.e. 4%) to allow for lower rents. Such a program needs to work with other federal programs, including HOME, tax credits, and project-based vouchers to achieve a mix of incomes. The reduced interest rate should produce rents affordable to families with 60 percent to 100 percent of median income. To address the needs of lower-income families, 15 percent to 25 percent of units in each property would be available for voucher recipients or otherwise restricted in accordance with the requirements of the other programs used.

The program should provide a "level playing field" for property ownership with no preference given to non-profit entities or tax-paying companies. Rather, consideration should be given to the most efficient producer of the housing to assure that the program is implemented quickly at the lowest possible cost.

Such a program would address the needs in areas of high housing costs by producing additional rental housing. Not only would it provide assistance to those who live in these developments, but also the additional supply of housing should increase vacancies in other properties and would therefore have the effect of moderating rent increases in the market area. MBA believes that assisting low- and moderate-income families is not only equitable but also less expensive than focusing exclusively on very low- and extremely-low income families. In addition, vouchers, either project-based or tenant-based, could be used to assure an income mix in the properties and provide assistance for those with the greatest need.

Conclusions

It is clear that a significant and worsening crisis in affordable housing exists in the United States. This deepening crisis affects every state in the country, and affects families in many income brackets. The crisis is increasing among America's working families, who find themselves paying a larger and larger portion of their income for shelter that is often inadequate. In some cases, affordable housing is simply not available. MBA commends Chairwoman Roukema and Vice-Chairman Green for their leadership in introducing the "Housing Affordability for America Act of 2002". We believe that this bill lays the groundwork for developing legislation that will enable the public and private sectors to solve the crisis in affordable housing, particularly rental housing.

While MBA endorses many of the new rental housing production provisions contained in H.R. 3995, we do not feel that targeting the production program to very-low and extremely-low income constituencies is the most cost-effective or efficient way to address the problems that currently exist. Addressing the need that exists for the lower income families solves part of the problem, but not all of the problem. The need for assistance for families making between 60 and 100 percent of median income is great. As currently drafted, we do not feel that the rental housing production program in H.R. 3995 would necessarily generate new construction or substantial rehabilitation of affordable rental housing, particularly mixed income developments.

MBA believes that in order to effectively address the scope and range of housing shortages that exist across the country, a mixed income rental housing production program is essential. MBA looks forward to working with the members of the Subcommittee and their staff to craft a rental housing production program that works in conjunction with other federal programs, including HOME, tax credits, and project-based vouchers to produce housing that serves a mix of incomes. Through such a program, government and private industry can work together to address the crisis in affordable housing.

We very much appreciate having the opportunity to present our views to you today.